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March 17, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
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FROM: John Naimo
Auditor-Controller

A handwritten signature in blue ink, reading "John Naimo", is written over the printed name and title.

SUBJECT: **DEPARTMENT OF PUBLIC SOCIAL SERVICES – STATE MANDATED
FINANCIAL AND COMPLIANCE AUDIT OF CHICANA SERVICE
ACTION CENTER PROGRAM CONTRACT – FISCAL YEARS 2012-13
AND 2013-14**

The Department of Public Social Services (DPSS) administers and contracts with providers for services related to various State assistance programs. The services include temporary shelter, transitional housing, case management, and kinship caregiver support for programs such as the Homeless CalWORKs Families Project, Community Services Block Grant, etc. The State requires the County to conduct financial and compliance audits of each contract after the contracts have expired, to ensure the providers complied with all State requirements.

At DPSS' request, we contracted with an independent Certified Public Accounting firm, BCA Watson Rice LLP (BCA or Auditor), to conduct the financial and compliance audits of 17 DPSS program service contracts that expired in Fiscal Years 2012-13 and 2013-14. Payments for the 17 contracts totaled \$10.4 million.

On February 8, 2016, we issued our first report, which addressed 16 of the 17 program service contracts, totaling \$8.9 million. The Chicana Service Action Centers' (Chicana) service contract was excluded from the first report to allow BCA to report events that occurred subsequent to their audit.

The attached report pertains to BCA's audit of Chicana's service contract, totaling \$1.5 million. Chicana was contracted to provide employment services under the General

Relief Opportunities for Work (GROW) Orientation, Rapid Employment and Promotion, and Job Skills Preparation Class Services Programs. These services consisted of half-day sessions to explain the GROW Program, one-week job readiness workshops, and two weeks of supervised job searches to General Relief applicants and participants. BCA issued its original report on April 29, 2015, stating that they identified no deficiencies in Chicana's internal control over financial reporting that were considered to be material weaknesses.

Subsequent to the audit, in July 2015, the Los Angeles County District Attorney (DA) charged three Chicana executives with various counts, including conspiracy, embezzlement, and misappropriation of public funds totaling more than \$8.5 million relating to this and other contracts Chicana had with the county. The charges stem largely from alleged creation of fictitious participant records. As a result, BCA revised their reports on January 12, 2016 to disclose the subsequent event.

BCA's scope of work included auditing the Schedule of Service Fees and Contract Reimbursements (Program Schedule), and verifying that participant files contained the required documents per the contract with DPSS. Based on the nature of the allegations against Chicana executives, BCA's scope of work, as contracted, was not designed to identify or disclose the fraudulent activity mentioned above.

Review Summary

Although BCA did not identify any material deficiencies in internal control over financial reporting, the audit noted instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Specifically, the audit disclosed that of 18 employee files reviewed:

- One file did not have a signed "Contractor Employee Acknowledgment and Confidentiality Agreement."
- Chicana did not perform a background check for one employee.

Chicana indicated that these issues resulted from an oversight on their part.

In addition, BCA was unable to determine if Chicana had the required documents in 144 (59%) of the 241 participant files selected because these files were with the DA related to the charges noted above. BCA's report indicates there was no scope limitation based on their inability to review these files because the Program Schedule required Chicana to be paid a monthly fixed-fee contracted amount as long as the contractor certified they maintained a Job Placement Rate Standard of at least eight percent. BCA recalculated Chicana's Job Placement Percentage Rate excluding the 144 missing files and determined that Chicana still met the standard.

Review of Report

BCA discussed their report with Chicana and DPSS. DPSS management stated that they no longer contract with Chicana. We also confirmed that Chicana has been reported in the Contractor Alert Reporting Database (CARD) since May 2013. As a result, no further action is required from DPSS' management.

We have attached a copy of BCA's audit report on Chicana's service contract. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:YK

Attachment

c: Sachi A. Hamai, Chief Executive Officer
Sheryl L. Spiller, Director, Department of Public Social Services
Public Information Office
Audit Committee

County of Los Angeles
Department of Public Social Services

Schedule of Service Fees and Contract Reimbursements
With Independent Auditor's Report

CHICANA SERVICE ACTION CENTER

General Relief Opportunities for Work Orientation, Rapid Employment
and Promotion, and Job Skills Preparation Class Services
Contract No. CMD-004-06

For the Period of
July 1, 2011 through March 31, 2013



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COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC SOCIAL SERVICES

CHICANA SERVICE ACTION CENTER

General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job
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INDEPENDENT AUDITOR'S REPORT

Mr. John Naimo
Auditor-Controller
County of Los Angeles
500 West Temple Street, Room 525
Los Angeles, California 90012-2766

Report on the Schedule of Service Fees and Contract Reimbursements

We have audited the accompanying Schedule of Service Fees and Contract Reimbursements (Program Schedule) of Chicana Service Action Center (the Contractor) under Contract No. CMD-004-06, General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job Skills Preparation Class Services Program, with the County of Los Angeles Department of Public Social Services (DPSS) for the period of July 1, 2011 through March 31, 2013, and the related notes to the Program Schedule, as listed in the table of contents.

Management's Responsibility for the Schedule of Service Fees and Contract Reimbursements

The Contractor's management is responsible for the preparation and fair presentation of the Program Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Program Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Program Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Program Schedule is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Program Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Program Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the Program Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Program Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Program Schedule referred to above presents fairly, in all material respects, the Service Fees and Contract Reimbursements of the aforementioned program operated by the Contractor for the period of July 1, 2011 through March 31, 2013 in accordance with the basis of accounting described in Note 2.

Other Matter

As described in Note 2, the Program Schedule was prepared in conformity with the monthly invoice procedures prescribed by the contract with DPSS, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated April 29, 2015, except for Note 5, as to which the date is January 12, 2016 on our consideration of the Contractor's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the Contractor's internal control over financial reporting and compliance.

BCA Watson Rice, LLP

Torrance, California

April 29, 2015, except for Note 5, as to which the date is January 12, 2016

**COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC SOCIAL SERVICES**

CHICANA SERVICE ACTION CENTER

**General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job
Skills Preparation Class Services**

Contract No. CMD-004-06

**Schedule of Service Fees and Contract Reimbursements
For the Period of July 1, 2011 through March 31, 2013**

	Claimed Fees and Payments	Adjustments	Audited
Total Service Fees	\$ 1,522,542	\$ (1,100)	\$ 1,521,442
Total Bonuses	-	-	-
	<u>1,522,542</u>	<u>(1,100)</u>	<u>1,521,442</u>
Less: DPSS Payments	<u>1,521,442</u>	-	<u>1,521,442</u>
Amount Due From (To) DPSS	<u>\$ 1,100</u>	<u>\$ (1,100)</u>	<u>\$ -</u>

Note: The Contractor failed to respond timely to DPSS' requests pursuant to Technical Exhibit T.9.2, Unsatisfactory Performance Remedies. As a result, DPSS assessed a fiscal penalty and reduced the payment to the Contractor by \$1,100.

See accompanying Notes to Schedule of Service Fees and Contract Reimbursements.

**COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC SOCIAL SERVICES**

CHICANA SERVICE ACTION CENTER

**General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job
Skills Preparation Class Services
Contract No. CMD-004-06**

**Notes to the Schedule of Service Fees and Contract Reimbursements
For the Period of July 1, 2011 through March 31, 2013**

Note 1 – Background Information

The primary responsibility of the County of Los Angeles (County), Department of Public Social Services (DPSS) is to provide effective services to individuals and families in need, which both alleviate hardship and promote personal responsibility and economic independence. To accomplish these and other responsibilities, DPSS administers various federal and State assistance programs.

DPSS enters into a contract each year with providers that afford various aspects of State mandated programs. There are two types of contracts, cost reimbursement for government agency providers and fixed-fee for private providers. The State requires DPSS to arrange for audits of these contracts.

Chicana Service Action Center (CSAC or the Contractor) entered into a contract with the County under Contract No. CMD-004-06 to provide General Relief Opportunities for Work Orientation (GROW), Rapid Employment and Promotion, and Job Skills Preparation Class Services effective July 1, 2006. Subsequent amendments extended the term of the contract. Amendment No. 2 extended the contract for an additional two-year period commencing January 1, 2010 through December 31, 2011. For the six-month period from July 1, 2011 through December 31, 2011, the maximum contract amount was \$435,012 for direct GROW services and \$15,000 for maximum possible bonus compensation amount. Amendment No. 5 further extended the contract for an additional six-month period commencing January 1, 2012 through June 30, 2012 for a maximum contract amount of \$435,012 for direct GROW services and \$15,000 for maximum possible bonus compensation amount. Furthermore, Amendment No. 6 extended the contract for an additional nine-month period commencing July 1, 2012 through March 31, 2013 for a maximum contract amount of \$652,518 for direct GROW services and \$22,500 for maximum possible bonus compensation amount. Thus, the total maximum contract amount for the period July 1, 2011 through March 31, 2013 for direct GROW services and maximum possible bonus compensation amount are \$1,522,542 (\$435,012 + \$435,012 + \$652,518) and \$52,500 (\$15,000 + \$15,000 + \$22,500), respectively.

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General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job
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Contract No. CMD-004-06

Notes to the Schedule of Service Fees and Contract Reimbursements
For the Period of July 1, 2011 through March 31, 2013

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

It is the policy of the Contractor to prepare its Program Schedule in accordance with the monthly invoice preparation prescribed by DPSS for the reported program, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Note 3 – Contracted Services

The Contractor entered into an agreement with DPSS under Contract No. CMD-004-06 to provide employment services under the General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job Skills Preparation Class Services Program to individuals/participants who receive General Relief.

Note 4 – Service Fees and Contract Reimbursements

Service fees are based upon monthly fixed-fees at specified reimbursement rates depending on the service provided during the term of the agreement up to a maximum of \$1,522,542, which do not include the bonus payments. Per the Contract, the monthly fixed-fee is payable as long as the Contractor maintains an overall acceptable Job Placement Rate Standard of at least eight (8) percent. For the period of July 1, 2011 through March 31, 2013, the fixed monthly fee for services are as follows:

GROW Site	Orientation	Job Skills Preparation Class	Rapid Employment and Promotion Activity	Monthly Total
Metro East	\$ 8,359	\$ 22,283	\$ 2,876	\$ 33,518
San Gabriel Valley	\$ 7,795	\$ 15,094	\$ 2,501	\$ 25,390
Pomona	\$ 4,660	\$ 6,500	\$ 2,434	\$ 13,594

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Notes to the Schedule of Service Fees and Contract Reimbursements
For the Period of July 1, 2011 through March 31, 2013

Note 4 – Service Fees and Contract Reimbursements (Continued)

In addition, the Contractor may receive a \$200 bonus payment for each full-time placement that exceeds 15% of total placements. However, there were no bonuses paid for the period of July 1, 2011 through March 31, 2013. The Contractor invoiced \$1,522,542 but DPSS reimbursed only \$1,521,442 for direct GROW services. The difference of \$1,100 between invoiced costs and the reimbursement amount is the fiscal penalty assessed by DPSS for the Contractor's failure to respond timely to DPSS' requests pursuant to Technical Exhibit T.9.2, Unsatisfactory Performance Remedies.

Note 5 – Subsequent Event

In July 2015, the Los Angeles County District Attorney charged three CSAC executives with embezzlement and conspiracy, accusing them of participating in a "billing scam" that defrauded the County of approximately \$8.5 million.

During our audit, BCA Watson Rice LLP was made aware of the investigation by CSAC and DPSS. However, the nature and extent of the investigation was unknown to both CSAC and DPSS at the time of our audit. We selected a sample size of 241 participant files for compliance testing and we were told by CSAC that 144 of the 241 participant files selected for testing were with the District Attorney's Office as part of their investigation, and thus were unavailable for our review.

There was no scope limitation to our work based on the inability to review the 144 files that were with the District Attorney's Office. The Program Schedule (Schedule of Service Fees and Reimbursements) is based on a monthly fixed-fee amount per Section 5.3 of the Contract. There is no direct (one-to-one) financial relationship between the 144 participant files not available for testing and the Program Schedule. Per the Contract, the monthly fixed-fee is payable as long as the Contractor certifies it maintained an overall acceptable Job Placement Rate Standard of at least eight (8) percent. We recalculated CSAC's reported Job Placement Percentage Rate based on the 144 missing participant files and determined that CSAC still met the 8% Job Placement Rate Standard. Thus, the 144 participant files not tested had no impact on our opinion on the Program Schedule.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF SCHEDULE OF SERVICE FEES AND CONTRACT
REIMBURSEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mr. John Naimo
Auditor-Controller
County of Los Angeles
500 West Temple Street, Room 525
Los Angeles, CA 90012-2766

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying Schedule of Service Fees and Contract Reimbursement (Program Schedule) of Chicana Service Action Center (the Contractor) under Contract No. CMD-004-06, General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job Skills Preparation Class Services Program, with the County of Los Angeles Department of Public Social Services (DPSS) for the period of July 1, 2011 through March 31, 2013, and the related notes to the Program Schedule, which collectively comprise the basic Program Schedule, and have issued our report thereon dated April 29, 2015, except for Note 5, as to which the date is January 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the Program Schedule, we considered the Contractor's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Program Schedule, but not for the purpose of expressing an opinion on the effectiveness of the Contractor's internal control. Accordingly, we do not express an opinion on the effectiveness of the Contractor's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Contractor's Program Schedule will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Contractor's Program Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-01, 2014-02, and 2014-03.

Contractor's Response to Finding

The Contractor's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Contractor's responses are not subjected to the auditing procedures applied in the audit of the Program Schedule, and accordingly, we express no opinion on them.

Limitations and Restriction on Use

Our review of participant files was limited to verifying that the participant files contained the required documents per the Contract. We did not verify whether the participant was fictitious because this testwork was outside of the scope of work BCA Watson Rice LLP was engaged to perform. This report is intended solely for the information and use of the County of Los Angeles Auditor-Controller, the County of Los Angeles Department of Public Social Services and the Contractor's management and is not intended to be and should not be used by anyone other than those specified parties.

BCA Watson Rice, LLP

Torrance, California

April 29, 2015, except for Note 5, as to which the date is January 12, 2016.

COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC SOCIAL SERVICES

CHICANA SERVICE ACTION CENTER

General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job
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Schedule of Findings and Questioned Costs
For the Period of July 1, 2011 through March 31, 2013

Finding #2014-01 – Background Checks

The Contract Section 7.2.2.3 states that *“Contractor shall ensure that all Contractor personnel providing Contract services have.....b) passed a background check.”*

Based on our testing of background checks of Contractor employees under this program, we found that no background check was performed for one out of 18 employees who worked under this program. The Contractor indicated that this was due to an oversight by the Contractor.

By not having completed a background check of their employees under this program, the Contractor is not in compliance with the contract requirements and the County may be liable if the Contractor’s staff are found to have criminal backgrounds.

Recommendation

We recommend that for all future contracts with DPSS, the Contractor complete background checks of all employees working under the program as required by the Contract.

Contractor's Response

This was an oversight on Chicana Service Action Center’s behalf and will ensure that every employee completes a background check.

Finding #2014-02 – Confidentiality Agreement

Contract, Section 8.15 states that *“the Contractor shall cause each employee performing services covered by the Contract to sign and adhere to Attachment I, “Contractor Employee Acknowledgement and Confidentiality Agreement.”*

Based on our review of employee files for employees working directly on the GROW program, we found that one out of 18 employees did not have a signed “Contractor Employee Acknowledgement and Confidentiality Agreement” on file. The Contractor indicated that this was due to an oversight by the Contractor.

By not maintaining a signed Contractor Employee Acknowledgement and Confidentiality Agreement for each of the employees working directly on the GROW program, the Contractor is out of compliance with the Contract and increases the risk to the County that an employee may unknowingly divulge confidential information to others.

Recommendation

We recommend that for all future contracts with DPSS, the Contractor properly obtain and maintain a signed Contractor Employee Acknowledgement and Confidentiality Agreement for each employees working directly on the program.

Contractor's Response

This was a signature oversight on the “Contractor Employee Acknowledgement and Confidentiality Agreement”. The form did contain a printed name and initial by employee; however, the employee and Chicana Service Action Center failed to notice the missing signature. Chicana Service Action Center will ensure this will not occur again.

Finding #2014-03 – Participant Files

The Contract Statement of Work Section 3.3.1.10 states that the Contractor shall *“create a participant folder for each GROW participant who starts Job Skills Preparation Class (JSPC) workshop. All folders must contain, but are not limited to, the following verification/documents:*

- *Job Club Activity Assignment*
- *Participation Agreement*
- *Dress for Success Agreement*
- *Counseling Record*
- *Participant Enrollment Profile*
- *Master Application*
- *Master Resume*
- *Employers Contact List*
- *Verification of job contacts, telephone call and job leads*
- *Verification of Employment*
- *Copy of JSPC Certificate”*

In addition, Contract Section 8.45 states that "*Contractor shall maintain books, records, documents and other evidence, and accounting procedures and practices sufficient to support all claims for payment made by the Contractor to the County.*"

Based on our testing of participant files, the Contractor was unable to provide records of participant files for 144 out of 241 participant files selected. The Contractor indicated that these files were taken by the District Attorney related to an investigation. Thus, we were unable to determine whether or not these participant files existed.

Recommendation

We recommend that DPSS verify that these participant files exist once these participant files are returned from the District Attorney's Office.

Contractor's Response

Chicana Service Action Center will contact DPSS when copies of the files are retrieved from the District Attorney's Office for their review.

DPSS' Response

DPSS confirmed that participant files were seized by the District Attorney's Office over two years ago from the Contractor's offices. However, DPSS do not agree with the recommendation that DPSS verify that these participant files exist once these participant files are returned from the District Attorney's Office for the following reasons:

- DPSS was not provided information from the DA of what documents or files were obtained from the contractor and will not be able to verify or confirm that these participant files are returned.
- DPSS does not maintain records of participant files kept by contractor agencies. Contractors are required, as part of the contract provisions, to maintain these records which is verified as part of on-site monitoring conducted by DPSS. Chicana Service Action Center is not a contractor for these services under the current GROW Services contract.

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General Relief Opportunities for Work Orientation, Rapid Employment and Promotion, and Job

Skills Preparation Class Services

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Status of Prior Findings and Questioned Costs

There was no prior year audit performed on this contract.